



## Prison Inmate Labor Credit

3507

Attach to your California tax return.

Name(s) as shown on return

☐ Social security ☐ Corporation number ☐ FEIN

Business address (number and street)

PMB no.

Secretary of State file number

City or town

State

ZIP Code

1	Total qualifying wages .....	1	
2	Multiply line 1 by 10% (.10) .....	2	
3	Pass-through prison inmate labor credit(s) from Schedule(s) K-1 (100S, 541, 565, or 568). See instructions .....	3	
4	Total available prison inmate labor credit. Add line 2 and line 3 .....	4	

**Caution:** Your credit may be limited. See the instructions for line 4.**Note:** The employer must keep the approved joint venture agreement for audit purposes.

## General Information

Effective for years beginning on or after January 1, 2000, references to "income year" were replaced with "taxable year" in all provisions of the Corporation Tax Law (CTL), the Administration of the Franchise and Income Tax Law (AFITL), and the Personal Income Tax Law (PITL). When referring to an income measurement period beginning before January 1, 2000, the term "taxable year" should be interpreted to mean "income year" as that term applied for those periods prior to January 1, 2000.

### Private Mailbox (PMB) Numbers

If you lease a private mailbox (PMB) from a private business rather than a PO box from the United States Postal Service, include the box number in the field labeled "PMB no." in the address area.

## A Purpose

Use form FTB 3507 to figure and claim a credit for wages paid to prison inmates under an approved joint venture agreement. Also use this form to claim pass-through prison inmate labor credits received from S corporations, estates or trusts, partnerships, or limited liability companies (LLCs) classified as partnerships.

S corporations, estates or trusts, partnerships, and LLCs classified as partnerships should complete form FTB 3507 to figure the amount of credit to pass through to shareholders, beneficiaries, partners, or members. Attach this form to Form 100S, Form 541, Form 565, or Form 568. Show the pass-through credit for each shareholder, beneficiary, partner, or member on Schedule K-1 (100S, 541, 565, or 568).

## B Qualifications

California allows a credit equal to 10% of the wages paid to each prisoner who is employed under an approved joint venture agreement.

The credit amount is based on wages paid to each qualifying employee during the taxable year for the duration of the contract agreement.

The credit applies only to wages paid pursuant to a contract agreement, executed on or before the day the individual begins work for the employer, between the Director of Corrections and the joint venture employer.

## C Limitations

S corporations may claim only 1/3 of the credit against the 1.5% entity-level tax (3.5% for financial S corporations). In addition, S corporations can pass through 100% of the credit to their shareholders.

If a taxpayer owns an interest in a disregarded business entity (a single member LLC [SMLLC] not recognized [disregarded] by California for tax purposes and treated as a sole proprietorship owned by an indi-

vidual or a branch owned by a corporation), the credit amount received from the disregarded entity that can be utilized is limited to the difference between the taxpayer's regular tax figured with the income of the disregarded entity, and the taxpayer's regular tax figured without the income of the disregarded entity.

An SMLLC may be disregarded as an entity separate from its owner, subject to certain statutory provisions that recognize otherwise disregarded entities for certain purposes including the tax and fee of an LLC, the return filing requirements of an LLC, and the credit limitations previously mentioned. Get Form 568, Limited Liability Company Return of Income, for more details.

This credit cannot reduce the minimum franchise tax (corporations, limited partnerships, limited liability partnerships, LLCs, and S corporations), the alternative minimum tax (corporations, exempt organizations, individuals, and fiduciaries), the built-in gains tax (S corporations), or the excess net passive income tax (S corporations). This credit cannot reduce regular tax below the tentative minimum tax (TMT). See Schedule P (100, 100W, 540, 540NR, or 541) for more information.

There is **no** provision for carryover of any unused credit to succeeding tax years and in no event can this credit be carried back and applied against a prior year's tax.

This credit is not refundable.

### Corporate Members of a Unitary or Combined Group

This credit cannot be allocated or otherwise transferred to another taxpayer, even if the other taxpayer is a member of a unitary or combined group or otherwise affiliated with the taxpayer that earned the credit.

## Specific Line Instructions

**Line 1** – Enter the total amount of qualifying wages paid or incurred under the provisions of the approved joint venture agreement.

**Line 3** – If you received more than one pass-through credit from S corporations, estates or trusts, partnerships, or LLCs classified as partnerships, add the amounts and enter the total on line 3. Attach a schedule showing the names and identification numbers of the entities from which the credits were passed through to you.

**Line 4** – The amount of this credit that you can claim on your tax return may be further limited. Refer to the credit instructions in your tax booklet for more information. These instructions also explain how to claim this credit on your tax return. You must use credit code number **162** when you claim this credit. Also see General Information C, Limitations.